

**STATEMENT OF DAVID T. MATSUDA
MARITIME ADMINISTRATOR
MARITIME ADMINISTRATION**

**BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION**

**The Maritime Administration's
Fiscal Year 2013 Budget Request**

March 7, 2012

Good afternoon Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee. Thank you for the opportunity to discuss the President's Fiscal Year 2013 budget priorities and initiatives for the Maritime Administration (MARAD). I am pleased to appear before you to highlight how the President's budget request will support maritime transportation and its contributions to the U.S. economy and to our National security.

MARAD's statutory mission is to promote and strengthen the U.S. marine transportation system - including infrastructure, industry and labor - to meet the economic and security needs of the Nation.

That is why the focus of the Fiscal Year 2013 budget is on economic competitiveness, environmental sustainability, and organizational excellence. MARAD's programs strengthen the U.S. maritime transportation system to foster economic growth and competitiveness and facilitate defense mobilization and emergency preparedness using U.S.-flag ships and U.S. citizen crews. MARAD continues to address marine transportation environmental sustainability and energy impacts, allowing the maritime industry to increasingly be environmental "good neighbors." In addition, MARAD continues to work toward organizational excellence by strengthening our management, internal controls, and accountability. The President's budget request for Fiscal Year 2013 meets each of these goals by balancing competing priorities in a fiscally responsible manner.

FY 2013 BUDGET REQUEST

The President's Fiscal Year 2013 Budget request for MARAD is \$344 million, which will support the Agency's coordinated program of activities and initiatives advancing Departmental and national maritime transportation objectives. The budget includes increases for Ship Disposal and USMMA operational requirements.

KEY PRIORITIES

One of MARAD's key priorities continues to be providing support for the U.S Merchant Marine Academy (USMMA). Raising the profile and prestige of the USMMA and improving the institution both administratively and academically are MARAD imperatives. The President's FY 2013 Budget request for MARAD also supports a structured program of capital reinvestment in campus facilities.

Another key priority for MARAD is fulfilling its role in meeting the economic and security needs of the Nation. Maritime Security Program (MSP) funding is essential for the maintenance of a U.S. presence in ocean-borne foreign commerce. In addition to providing employment for 2,400 U.S. merchant mariners, the MSP fleet also ensures the military's ability to obtain assured access to commercial vessels and intermodal facilities and mariners. The President's FY 2013 budget includes a \$10 million increase for MSP. Along with \$2 million from carryover funds, this request will fully fund the MSP program at the authorized level of \$186 million for 60 militarily useful ships.

The FY 2013 budget request provides strong support for critical environmental efforts by including a total of \$10 million for the Ship Disposal Program. This is an increase of \$4.5 million above FY 2012 enacted levels. As the U.S. Government's disposal agent for large commercial vessels, the Ship Disposal program provides continued acceleration of obsolete vessel disposal actions, with emphasis on vessels that are a high disposal priority, including those covered by the Suisun Bay Reserve Fleet (SBRF) judicial consent decree. The budget also requests \$3 million for other environmental sustainability efforts such as management of ballast water discharges and vessel air emissions. MARAD is also exploring the feasibility of a new generation of biofuels for use in marine engines and using Liquid Natural Gas (LNG) for vessels serving the Great Lakes and other marine highways in the future.

Finally, another priority for MARAD in Fiscal Year 2013 is the continued oversight and stewardship of Recovery Act and TIGER grant funding for maritime projects.

ECONOMY

Maritime transportation is a vital industry, contributing more than \$10 billion per year to the national economy. Maintaining the economic competitiveness and readiness of maritime transportation is the Agency's core mission, which commands the largest share of the budget request. Approximately 87 percent of the Fiscal Year 2013 request is devoted to programs supporting economic competitiveness and defense mobilization and preparedness to respond to emergencies.

MARAD's mariner training activities focus on training individuals for maritime careers while developing and maintaining a vital and viable U.S. merchant marine for commerce, emergency response, and national security. The USMMA and State Maritime Academies educate and graduate merchant marine officers ready to serve the maritime industry and Armed Forces. In addition, MARAD's work with shipping, shipbuilding, and port and

vessel operations supports the maritime industry, which comprises more than 260,000 jobs.

MARAD programs also support defense mobilization and emergency response readiness. The Maritime Security Program (MSP) helps to protect the Nation through a fleet of commercial U.S.-flag vessels capable of providing global sealift and intermodal capacity to support national security and federal emergency response requirements.

United States Merchant Marine Academy

The President's Fiscal Year 2013 Budget requests \$77 million for the USMMA. This request includes a program increase of \$5 million for Academy Operations. The program increase will support enhancements to midshipmen health coverage, Marine Transportation and Marine Engineering academic programs, and much-needed facilities maintenance and repair. Since 2010, the increase in capital improvement funding in addition to the 2013 request of \$10 million will address the most critical facility modernization and restoration priorities which include renovating the pier, the dining hall and the two remaining barracks. In addition, MARAD has recently begun work on a new strategic plan that will develop long-term objectives and institutional goals.

Providing support and oversight to improve and strengthen the USMMA, both administratively and academically, remains a management imperative. To that end the budget request supports restoring staffing levels at the Academy. In fact, since the start of this Administration, nearly 50 percent of MARAD's new hires are Academy employees. Of that number, nearly 25 percent are veterans, underscoring our commitment to provide employment for former service members.

The Academy is also making significant progress in implementing management and process improvements responding to recommendations in the 2009 Government Accountability Office (GAO) audit report. Addressing these recommendations remains a top priority of the Academy and MARAD. Actions we have implemented address concerns GAO expressed about policy, oversight, and governance for Non-Appropriated Funding Instrumentality (NAFI) organizations. USMMA had 14 operating NAFIs when GAO began their initial audit in June 2008. Today, only two NAFIs are authorized to continue operations. The others were terminated or are in the transition process of closing because it was determined that they did not comply with governing NAFI operating principles. Also, with the funding provided in the Fiscal Year 2011 budget, 87 percent of eligible recipients have received reimbursements of Midshipman Fee overcharges from 2003-2008, and we continue to make progress locating and contacting the remaining eligible recipients.

State Maritime Academies

The President's FY 2013 budget requests \$16 million for the State Maritime Academy (SMA) program. Of the \$16 million request:

- \$2.4 million will fund the Student Incentive Payment (SIP) program, unchanged from Fiscal Year 2012, enabling enrollment of 300 students to be able to meet identified Armed Forces reserve requirements.
- \$2.5 million for annual direct payments to each of the six state maritime academies to provide for operational support; and
- \$11.1 million will fund maintenance and repair costs for Federally-owned training ships on loan to the various state academies.

The state academies regard the SIP program and support for their training ships as among the most important recruiting tools to encourage potential State Maritime Academy cadets to pursue careers as merchant mariners. MARAD anticipates approximately 600 students in the license program will graduate from the academies in 2013.

It is important to note that, under the National Maritime Heritage Act, the recycling of obsolete NDRF ships that result in a sales contract returns 25 percent of net sales proceeds to the Maritime Academies. In the past fiscal year, MARAD has provided more than \$500,000 to the State Maritime Academies from the vessel scrap sales.

Maritime Security Program

The Maritime Security Program (MSP) is the Agency's largest appropriated program. The primary purpose of the MSP is maintenance of a U.S.-flag fleet capable of supporting U.S. presence in foreign commerce, while also ensuring the military's access to a global intermodal system with sealift capacity and ready U.S. mariners. MSP vessel participants have the global, multi-modal reach that delivers cargoes supporting overseas deployments of U.S. forces. A terrific example of MSP return to the Nation is the Northern Distribution Network supporting operations in Afghanistan, and the fact that MSP carriers have moved more than 90 percent of the commercial U.S.-flag sealift for Operation Iraqi Freedom and Operation Enduring Freedom since 2002.

The President's Budget includes \$184 million for FY 2013, an increase of \$10 million from the FY2012 enacted level, for this critical, proven, and cost effective sealift program. Together with \$2 million in unobligated carry-over balances, this request will provide full program funding of 60 authorized U.S.-flag vessel fleet at the authorized \$3.1 million payment per vessel. This will achieve more than 19,200 ship operating days for MSP-enrolled vessels. Funding at this level will enable DOT to continue to maintain a U.S.-flag international trade merchant fleet crewed by U.S. citizens to serve the Nation's economic, homeland and national security needs.

Maritime Guaranteed Loan Program (Title XI)

Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards for operation under U.S.-flag registry. The loan guarantees enable applicants with long-term financing at favorable interest rates, sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs. The current Title XI subsidy balance for new loans is \$27.5 million. The President's FY

2013 budget requests \$3.75 million for administration of the Title XI guaranteed loan portfolio to ensure compliance with the Federal Credit Reform Act. The current loan portfolio is \$2.3 billion, covering approximately 360 vessels.

America's Marine Highways

Ports and Marine Highways are critical to MARAD's mission and to economic competitiveness. The Nation's ports are central to the economy. The America's Marine Highway Program focuses on increasing the use of water transportation within the U.S. to supplement road and rail where it is feasible. Demonstration Projects funded in 2010 are beginning to come to fruition. For example, a Marine Highway grant awarded to expand an operation between the Ports of Norfolk and Richmond in Virginia has doubled their service frequency and volume and sailing full each trip, supporting exports from the region and relieving congestion on Interstate 64.

To support the Department's strategic goal for economic competitiveness, existing programs like the Transportation Investment Generating Economic Recovery (TIGER) Discretionary grants and Assistance to Small Shipyard Grants are targeting federal resources to help improve the Nation's port infrastructure. The President's FY 2013 budget requests a total of \$500 million for TIGER. To date, TIGER grants have funded 17 port and maritime-related projects, totaling more than \$276 million in Federal dollars and supplemented by State and local funds. Thirteen of these projects are underway, and more than \$82 million has already been expended. These grants are modernizing and adding capacity to ports, improving connections to inland markets such as adding rail lines between the dock and existing corridors, and improving the overall efficiency of freight movement. A fourth round of TIGER Grants is currently in progress, offering the promise of additional maritime support. In addition, \$153 million in Small Shipyard Grants has been awarded to 133 projects across the country to support capital improvements at shipyards, improving their ability to compete for domestic and international ship construction.

ENVIRONMENT

MARAD environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability; focusing on obsolete vessel disposal, reducing marine air emissions, and treating ballast water. Approximately 4 percent of the President's FY 2013 request will fund programs supporting environmental outcomes.

Ship Disposal

The President is requesting a total of \$10 million for the Ship Disposal Program in FY 2013. The request is comprised of \$7 million for ship disposal costs and \$3 million to support nuclear license management for the Nuclear Ship SAVANNAH. This is an increase of \$4.5 million above the FY 2012 level. The FY 2013 request will allow continued acceleration in the removal of obsolete ships from the National Defense Reserve Fleet for disposal, with emphasis on vessels that are a high disposal priority,

most of which remain in the Suisun Bay Reserve Fleet (SBRF). There currently are less than 50 total non-retention ships remaining in MARAD's three fleet sites awaiting disposal, which is a historic low. With the requested funding level, MARAD will be able to continue this disposal momentum with the expedited removal for recycling of up to 15 obsolete ships from all three fleet sites in 2013, which will include approximately six SBRF vessels. The requested funding level is consistent with the requirements of the court ordered settlement with California.

Significant costs related to compliance with the National Invasive Species Act (NISA) and Clean Water Act (CWA) will continue into 2013, in particular for removal of SBRF ships that require drydocking for the cleaning of marine growth from the underwater hulls. Due to the presence of onboard hazardous materials such as residual fuel, asbestos and solid polychlorinated biphenyls on these ships, obsolete vessels must be disposed of properly. Expedited disposal of obsolete ships lessens environmental risk and makes sense not only from the standpoint of avoiding possible harm to the environment, but also in reducing costs.

The President's FY 2013 request includes \$3 million for the inactive Nuclear Ship SAVANNAH, providing for the continuation of support activities including nuclear license compliance, radiological protection, ship husbandry and custodial care, decommissioning planning and preparation, and historic preservation.

Maritime Environment and Technology Assistance

Maritime transportation is an energy efficient mode for transporting people and freight; however, for a number of years now, our industry has been faced with substantial environmental challenges that go to the heart of its long-term sustainability. The most pressing environmental issues facing the maritime industry are invasive species in ballast water, energy use and air emissions. In the President's FY 2013 budget, \$3 million is requested for environmental sustainability efforts for these areas. With this funding, we will continue to explore the feasibility of a new generation of biofuels for use in marine engines, with very promising results -- and using Liquefied Natural Gas (LNG) for vessels serving the Great Lakes and other marine highways in the future.

MARAD has been called upon by industry and government agencies to help address these environmental pollution issues, and we recognize that more must be done to transition toward a greener maritime future. MARAD recently launched a LNG feasibility study and engineering/design study on the Great Lakes to better understand the infrastructure needs, shipboard engineering concerns, safety and real costs of powering vessels with LNG. In addition to the study on the Great Lakes, MARAD also is working with EPA Region 10 as well as local agencies and industry to support activities associated with LNG use in the Pacific Northwest and elsewhere.

MARAD has been engaged for several years in research and study related to ballast water treatment facilities. MARAD has provided federal funds to support three facilities to

provide the Nation with the capability to test promising treatment technologies to IMO and U.S Coast Guard standards.

In addition, MARAD continues to test alternative fuels for ship use. MARAD also is working with Canada to update the Great Lakes Water Quality Agreement, looking at governance, toxic substances, nutrients, ship-source pollution, science coordination, aquatic invasive species, habitats and species, and climate change impacts.

The budget request will continue to advance critical research to develop a ballast water discharge standard, advance infrastructure and methodologies for certifying and verifying ballast water technologies, and improve vessel emissions data.

EXCELLENCE

MARAD's greatest asset is its people who are the cadre of maritime professional experts relied upon by the U.S. maritime industry and government agencies to provide policy, operational, educational and financial services in all aspects of the maritime industry. The Agency's expertise in the global logistics and commercial maritime industry, along with industry and international relationships developed over time, has proven invaluable to the operations of the Federal Government.

Additional services are provided to our Agency partners and the industry using the base of expertise already established at the Agency. Our core competencies and Agency assets have played valuable roles in the past in enhancing military readiness, providing humanitarian and disaster relief assistance, investigating impacts to U.S. ports and providing training platforms for anti-piracy operations. These services supported by the Agency's core competencies provide a valuable asset to the country.

MARAD regards the effectiveness of our support and administrative programs and processes as essential to the effectiveness of our operating programs. Approximately 9 percent of our Fiscal Year 2013 budget request will support staffing of headquarters operating programs and the strengthening of human resource management, information management, financial management, and administrative services. The Fiscal Year 2013 budget includes investment in the Agency's workforce, including training, leadership, and succession planning. We will continue to shape our organization using feedback provided in the employee's survey, and advance MARAD as an employer of choice.

MARAD will continue developing our information technology (IT) operating and content environments, strengthen IT security and protection of identity information, and advance e-Government. In 2013, MARAD will continue to document and improve processes, strengthen internal controls and compliance, and improve financial reporting for use in guiding program development and decision-making. MARAD will work to resolve identified vulnerabilities and deficiencies, including the GAO recommendations for the USMMA. MARAD will do all of this with a view toward greater transparency, internally and externally.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss the President's FY 2013 request for MARAD, and for the Committee's continuing support for maritime programs. I look forward to working with you on advancing maritime transportation in the United States, and am happy to respond to any questions you and the members of this Committee may have.

Thank you.